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Southwest Minnesota Economic and Business Conditions Report - First Quarter 2016

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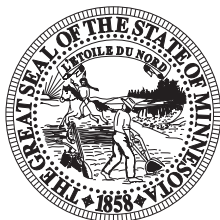
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Southwest Minnesota Economic and Business Conditions Report First Quarter 2016

This issue is part of a series for the six planning areas of Minnesota –
Central, Northeast, Northwest, Southeast, Southwest, and Twin Cities.

The Southwest Minnesota Planning Area consists of 23 counties: Big Stone; Blue Earth; Brown; Chippewa; Cottonwood; Faribault; Jackson; Lac qui Parle; Le Sueur; Lincoln; Lyon; Martin; Murray; Nicollet; Nobles; Pipestone; Redwood; Rock; Sibley; Swift; Waseca; Watonwan; and Yellow Medicine.



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Executive Summary

Economic conditions are expected to improve in Southwest Minnesota over the next several months according to the predictions of the St. Cloud State University (SCSU) Southwest Minnesota Index of Leading Economic Indicators (LEI). A strengthening rural outlook, a recent increase in new business filings, and fewer initial jobless claims in the first quarter helped drive the leading index higher. A small reduction in residential building permits in Mankato served as a drag on the leading index in the first quarter.

There were 665 new business filings with the Office of the Minnesota Secretary of State in Southwest Minnesota in the first quarter of 2016 — representing 3.6 percent fewer new filings than one year earlier. There were 56 new regional business incorporations in the first quarter, a 9.7 percent decrease from one year ago. New LLC filings in Southwest Minnesota fell by 3.5 percent—decreasing to 391 in the first quarter of 2016. New assumed names totaled 190 in the first quarter—2.1 percent fewer filings than in March 2015. There were twenty-eight new filings for Southwest Minnesota non-profits in the first quarter—one less than one year earlier.

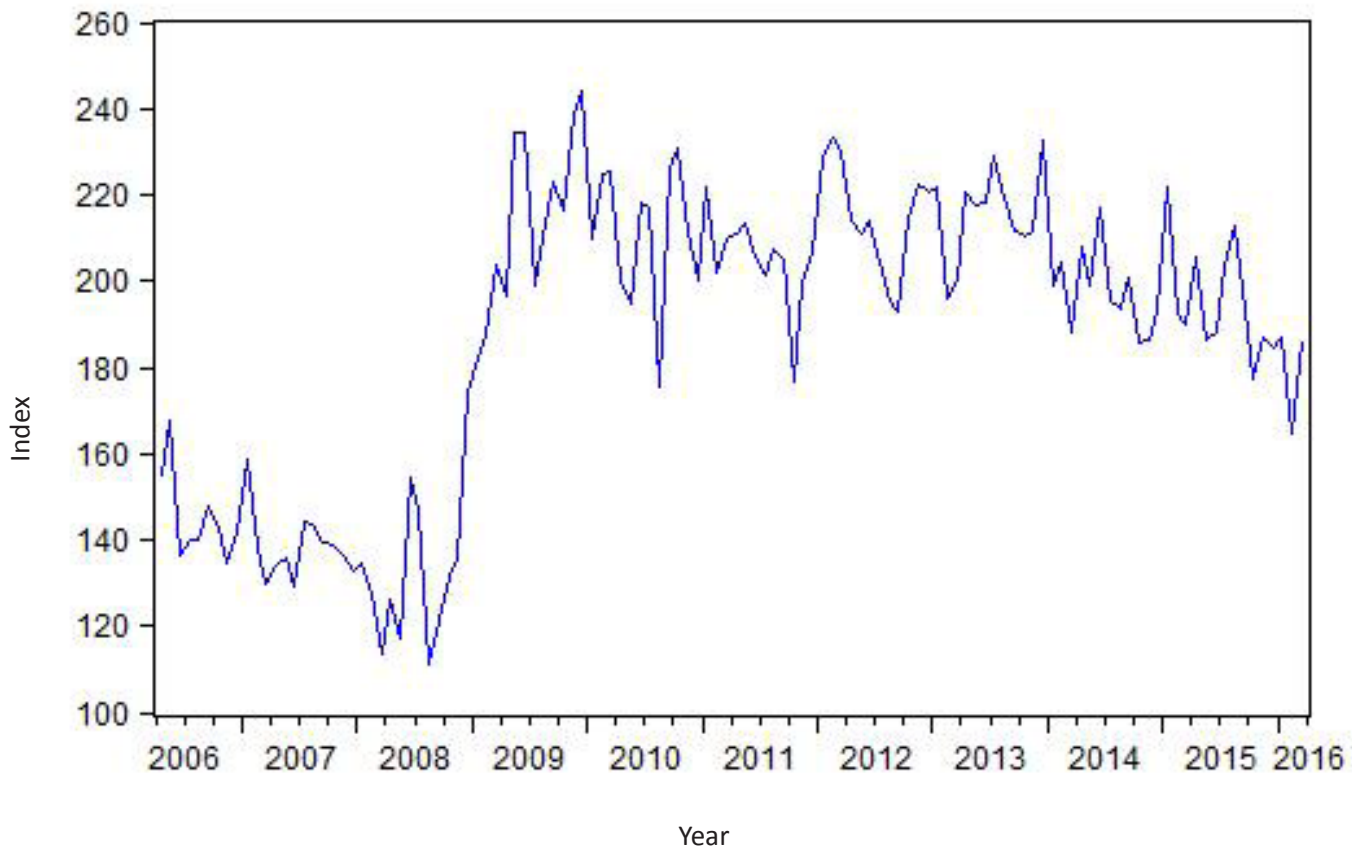
Employment of Southwest Minnesota residents expanded by 0.7 percent over the year ending March 2016. 1,574 more Southwest Minnesota residents have jobs than did one year earlier. The regional unemployment rate was 4.9 percent in March, an increase from a 4.7 percent reading in March 2015. Initial claims for unemployment insurance fell by 152 from year-ago levels in March—an 11.4 percent decrease. The Southwest Minnesota labor force rose by 2,075 (a 0.9 percent increase) over the year ending March 2016 and regional job vacancies approached multi-year high levels. Southwest Minnesota bankruptcies inched a little higher in the first quarter of 2016.

There was mixed economic performance in the Mankato/North Mankato Metropolitan Statistical Area (MSA)—the largest market in Southwest Minnesota. On the positive side, average hourly earnings rose, employment increased, and the labor force expanded. However, this was offset by a decline in the length of the workweek, a lower value of residential building permits, higher initial jobless claims, a larger unemployment rate, and lower new business filings.

Southwest Minnesota Leading Economic Indicators Index

The SCSU Southwest Minnesota Leading Economic Indicators (LEI) index is designed to predict performance of the regional economy with a four-to-six month lead time. The LEI rose by 15.01 points in the first quarter and is now 1.9 percent lower than one year earlier. As can be seen in the accompanying graph, the LEI in Southwest Minnesota has been highly variable since the end of the Great Recession but has slowly drifted downward since the end of 2013.

SCSU Southwest Minnesota Leading Economic Indicators Index (December 1999=100)



Components of SCSU Southwest Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 1st quarter 2016	Contribution to LEI, 4th quarter 2015
Rural Mainstreet Index	6.20	-9.34
Southwest Minnesota initial claims for unemployment insurance	7.06	4.84
Southwest Minnesota new filings of incorporation and LLCs	1.94	-3.54
Mankato MSA single-family building permits	-0.19	13.15
TOTAL CHANGE	15.01	5.11

The Southwest Minnesota LEI has four components, three of which increased in the first quarter. A recent increase in new business filings for incorporation and LLC helped lift the index, but a smaller number of Mankato/North Mankato Metropolitan Statistical Area (MSA) single family residential building permits weighed on the LEI. A decrease in the number of initial jobless claims contributed favorably to the index. The Rural Mainstreet Index from Creighton University uses survey data from rural bankers and business leaders in towns with average population of 1,300 in ten Midwestern states. This index is used as a proxy for economic performance in the rural counties of Southwest Minnesota. This index also had a favorable impact on the LEI in the most recent quarter.

SCSU Southwest Minnesota Leading Economic Indicators Index

	2016	2015	Percentage Change
Rural Mainstreet Index, Creighton University March	44.7	50	-10.6%
Southwest Minnesota initial claims for unemployment insurance March	1,181	1,333	-11.4%
Southwest Minnesota new filings of incorporation and LLCs First Quarter	447	467	-4.3%
Mankato MSA single-family building permits March	12	10	20.0%
Southwest Minnesota Leading Economic Indicators Index March (March 1999 = 100)	186.3	190.0	-1.9%

Southwest Minnesota Business Filings

The graphs in this section show the 12-month moving total for the various new business filings in Southwest Minnesota that are registered with the Office of the Minnesota Secretary of State. Total new business filings fell by 3.6 percent from year earlier levels in the first quarter. After rising since the beginning of 2014, this series now appears to have peaked out in the middle months of 2015. Note that the abrupt increase in new filings in the middle of 2008 is largely a result of increased new LLC filings. This outlier is related to considerably higher filings in the construction industry and appears to be a one-time only transitory event seen in the data in all regions of Minnesota (although less so in the southwest region).

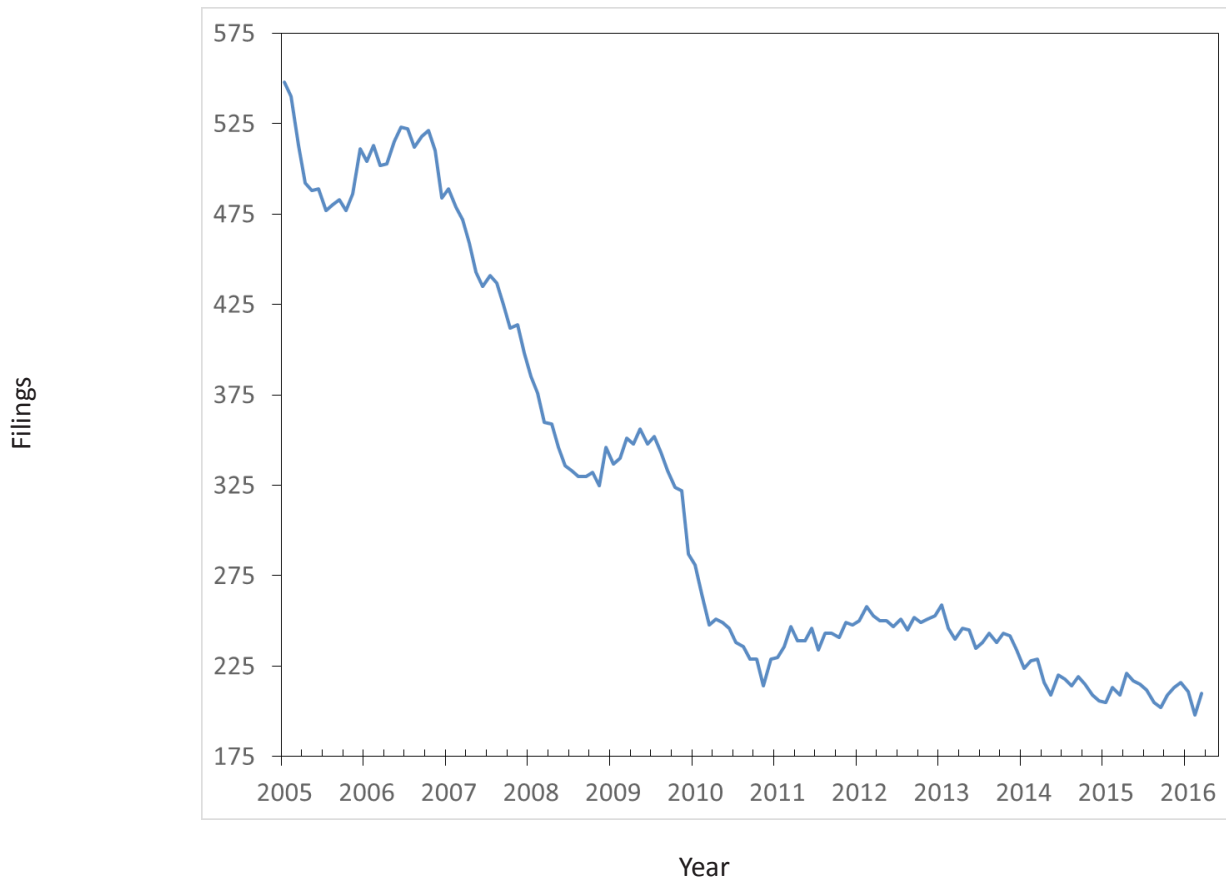
Total New Business Filings—Southwest Minnesota Planning Area (12-month moving total)



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Southwest Minnesota Total New Business Filings	690	646	518	550	665	-3.6%

New business incorporations trended downward sharply in Southwest Minnesota from 2005 to 2011, then levelled off until 2013. Since that time, the downward trend has resumed. First quarter 2016 new regional incorporations decreased by 9.7 percent compared to the same quarter in 2015.

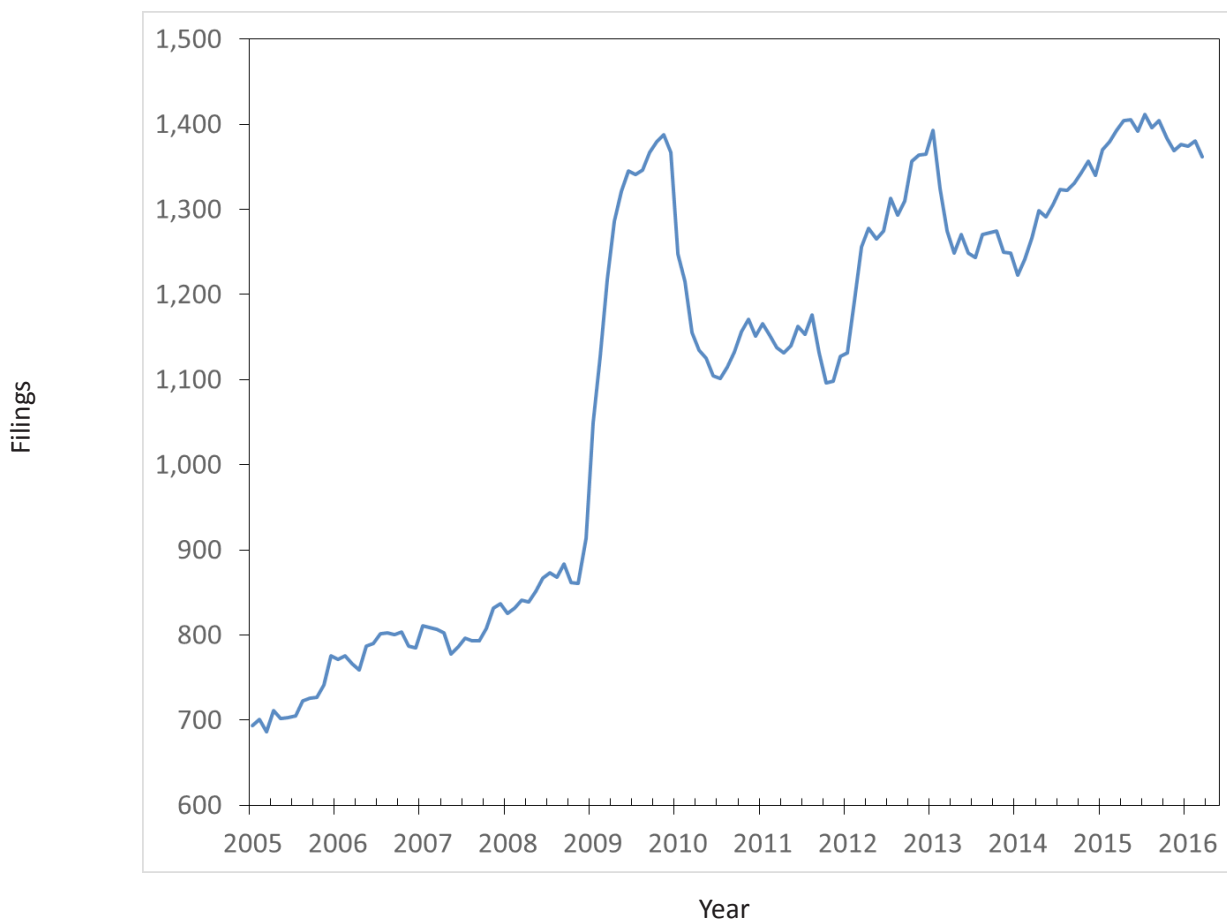
New Incorporations—Southwest Minnesota Planning Area (12-month moving total)



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Southwest Minnesota New Business Incorporations	62	59	34	61	56	-9.7%

There has been a move in Southwest Minnesota, as in the rest of the state, away from traditional incorporation and towards the limited liability company (LLC). While new business incorporations remain an important indicator of new business formation in Southwest Minnesota, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is considerable upward trend in LLCs in Southwest Minnesota since 2005. However, this trend may have peaked out in the middle months of 2015. New LLC filings fell by 3.5 percent compared to one year earlier in the most recent quarter.

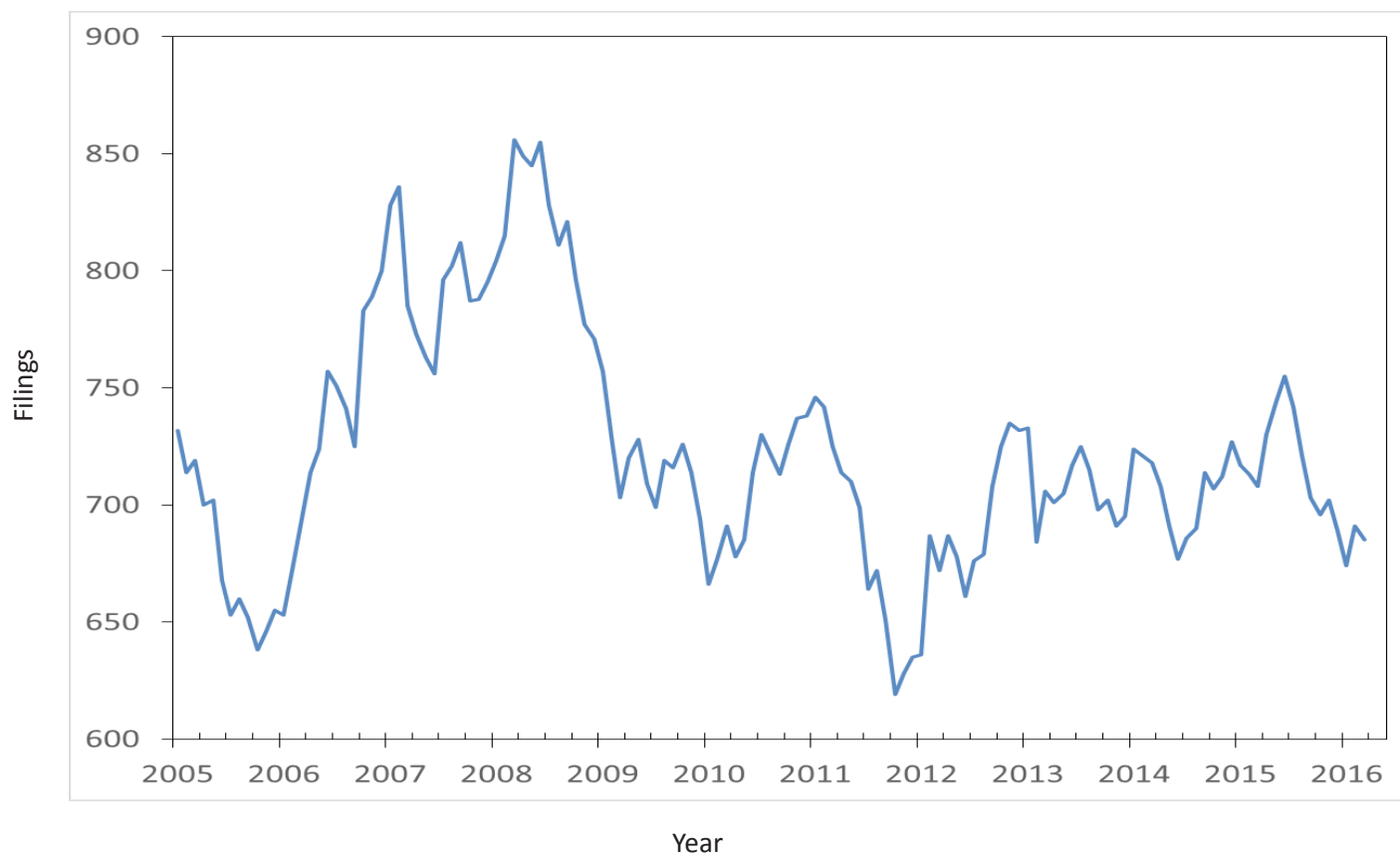
New Limited Liability Companies—Southwest Minnesota Planning Area (12-month moving total)



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Southwest Minnesota New Limited Liability Companies	405	359	321	291	391	-3.5%

First quarter assumed names fell by 2.1 percent compared to the same period in 2015. As can be seen in the accompanying figure, while this series has been very volatile in recent years, new assumed names are little changed since the beginning of 2013.

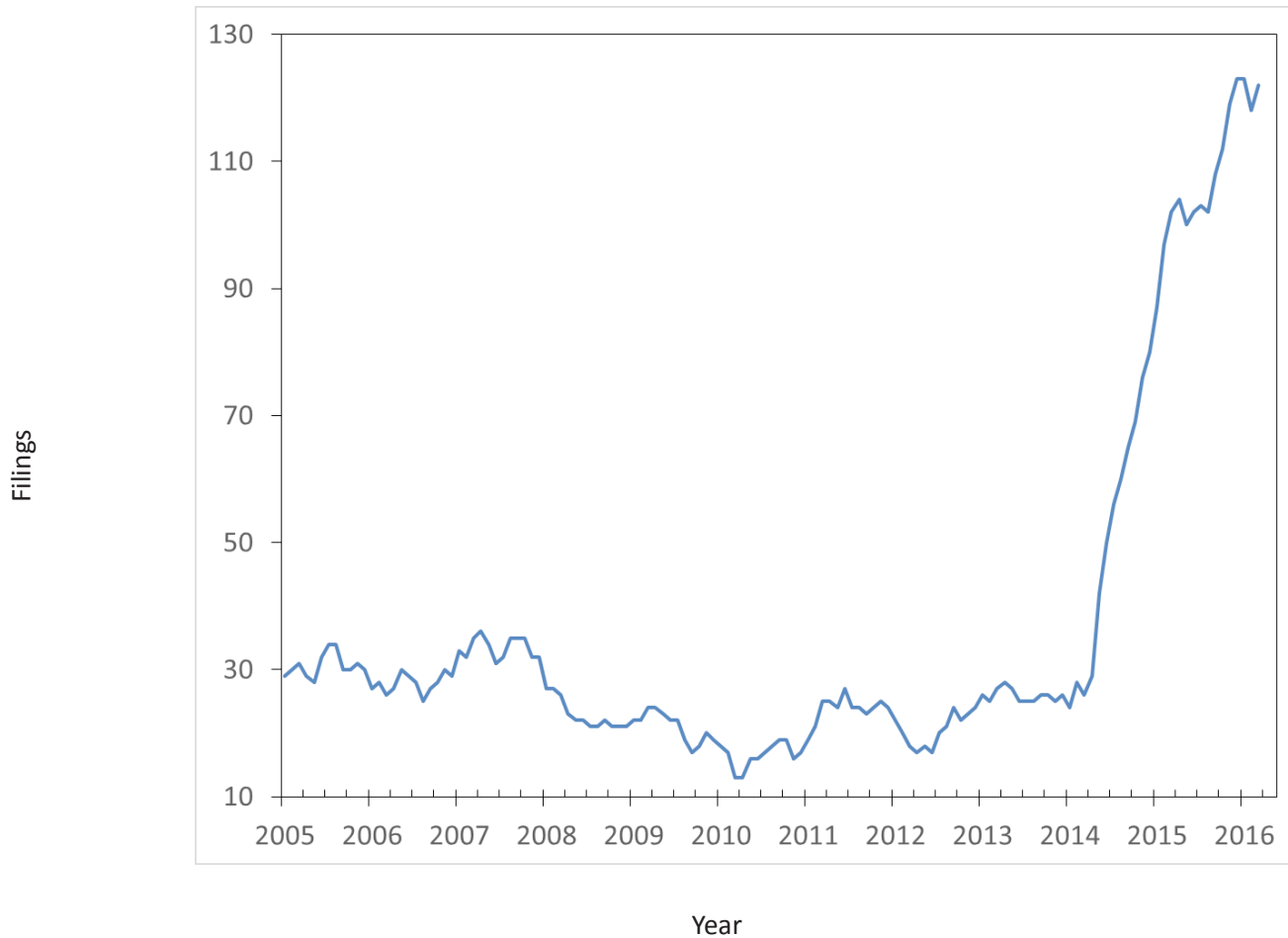
New Assumed Names—Southwest Minnesota Planning Area (12-month moving total)



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Southwest Minnesota New Assumed Names	194	200	132	163	190	-2.1%

There were 28 newly registered non-profits in the first quarter. This is one less than one year ago. As can be seen in the graph below, the non-profits series has increased considerably since the beginning of 2014.

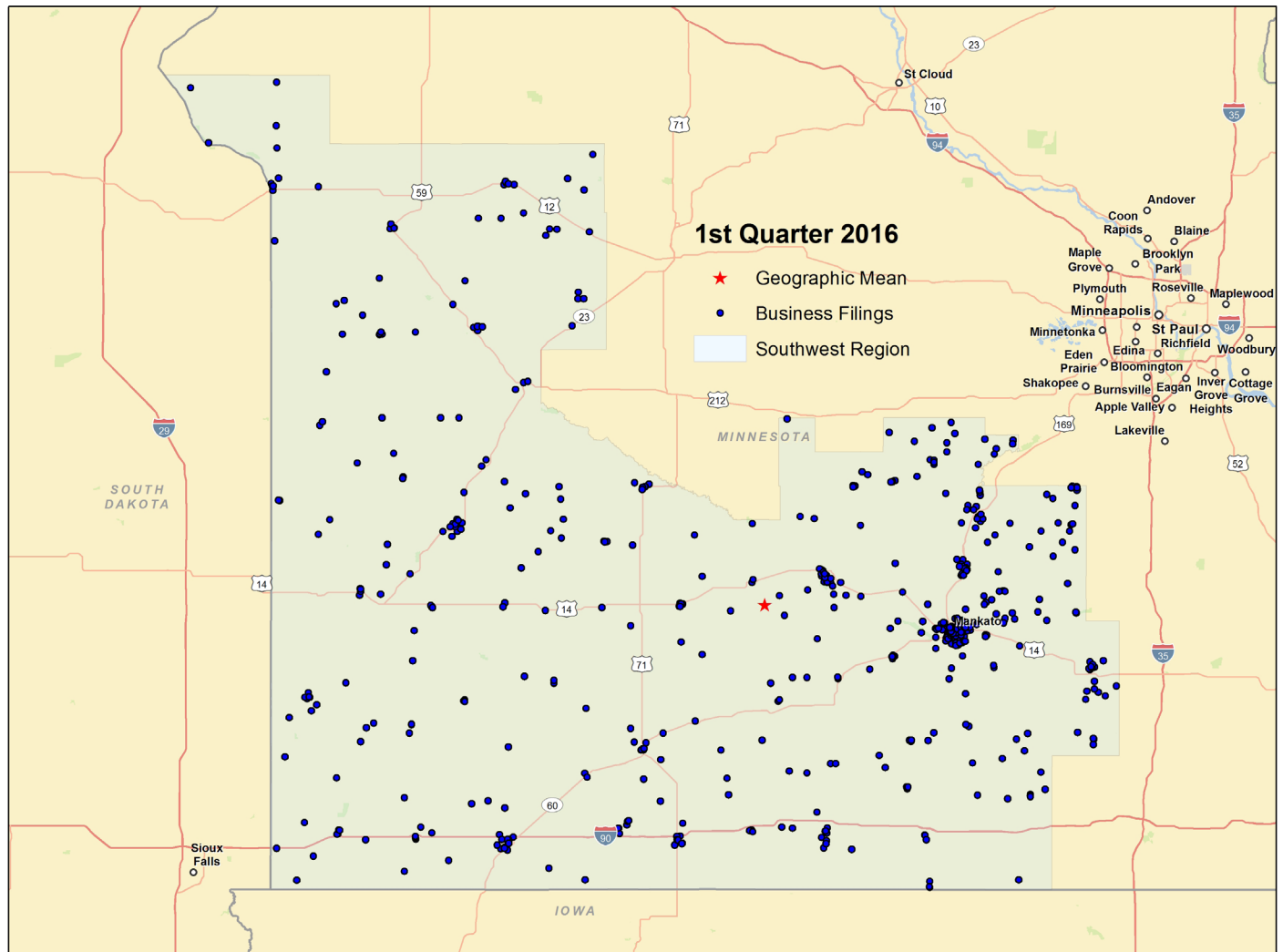
New Non-Profits—Southwest Minnesota Planning Area (12-month moving total)



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Southwest Minnesota New Non-Profits	29	28	31	35	28	-3.4%

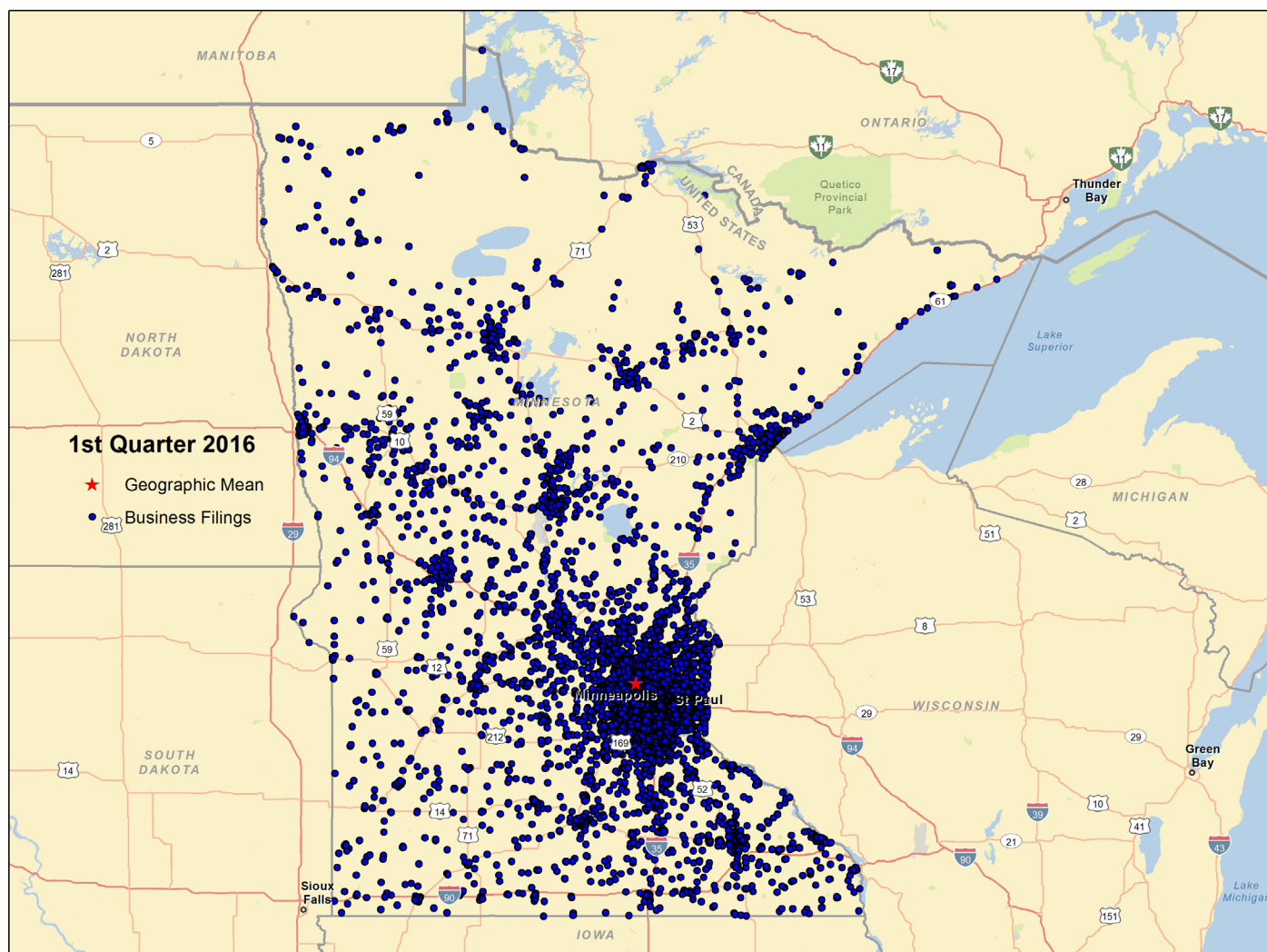
The first map shown below is a visual representation of new business formation around the Southwest Minnesota planning area in the first quarter of 2016. The densest areas of new business formation are in the Mankato metro. Little pockets of new business formation can also be found in Marshall, Worthington, New Ulm, and St. Peter. Well-traveled roadways are also a predictor of new business formation in Southwest Minnesota.

Southwest Minnesota Planning Area--New Business Formation--Quarter 1: 2016



The second map shows new business formation for the state as a whole. This visual aid demonstrates the considerable extent to which the Twin Cities metro area dominates new business formation in the state. The map shows how the Twin Cities metro stretches along roadways into the Southeast, Southwest and Central planning areas. Clusters of new business formation can also be seen in Duluth, Grand Rapids, Bemidji, Brainerd, Moorhead, Alexandria, St. Cloud, Rochester, and Mankato. The latter three cities are slowly losing their independent economic identity as they become increasingly connected to the Twin Cities metro.

Minnesota--New Business Formation--Quarter 1: 2016

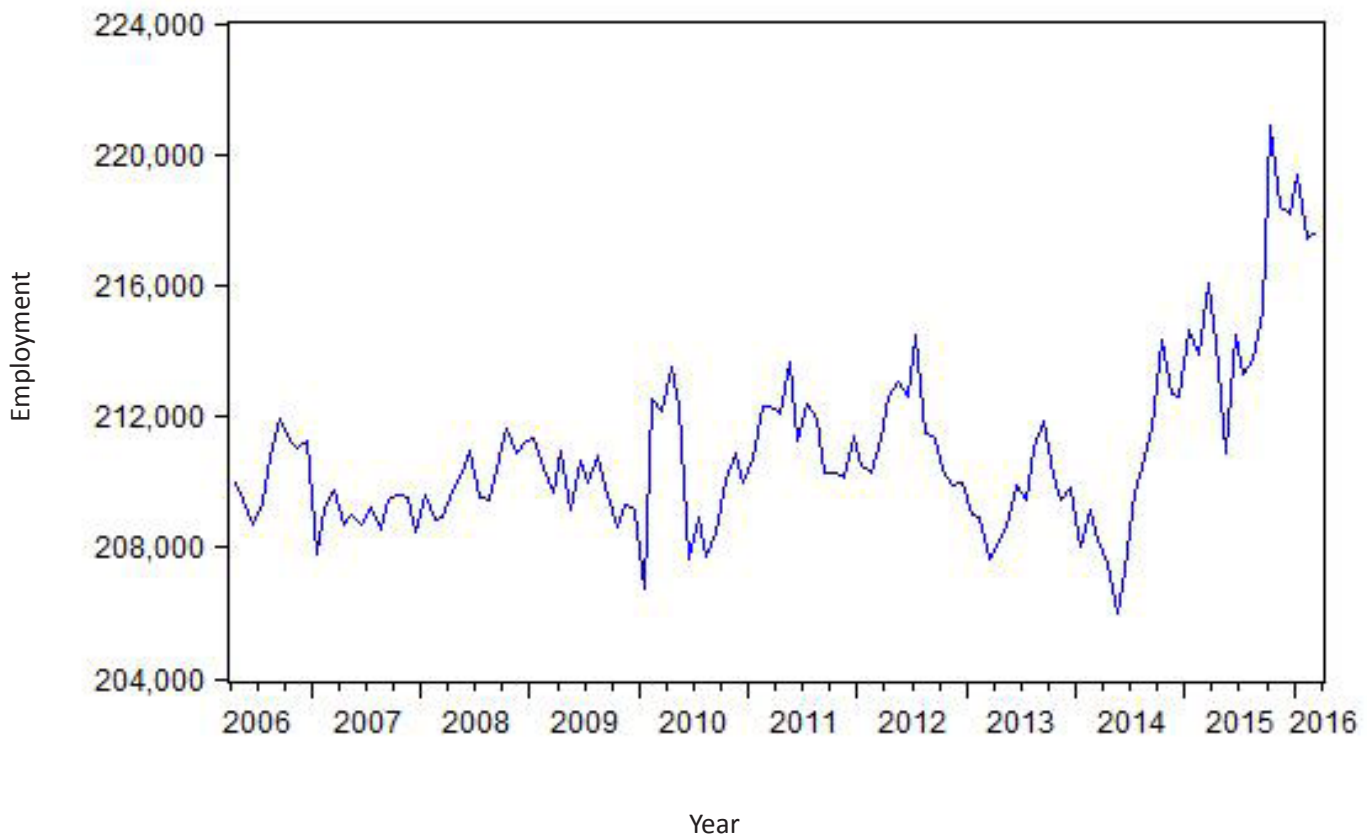


Southwest Minnesota Labor Market Conditions

Employment of residents of the Southwest Minnesota planning area grew 0.7 percent over the past year. As can be seen in the accompanying graph, the 12-month moving employment average trended upward from the middle of 2014, but has declined in the two recent quarters. Using non-seasonally adjusted data, Southwest Minnesota planning area employment in March 2016 (see accompanying table) was 216,210, an increase of 1,574 over the prior year.

Note: seasonally adjusted labor market data are typically not available to evaluate regional economic performance so some series have been created to illustrate seasonal patterns of the regional labor market. Graphs of these indicators are found in this section of the report. Tabular data are not seasonally adjusted.

Employment—Southwest Minnesota Planning Area (12-month moving average)



Month	March 2015	October 2015	November 2015	December 2015	January 2016	February 2016	March 2016
Employment (Not seasonally adjusted)	214,636	222,054	219,468	218,343	216,983	213,958	216,210

The seasonally adjusted unemployment rate in Southwest Minnesota may have bottomed out in the third quarter of 2015. Both the seasonally and non-seasonally adjusted unemployment rates rose in the first quarter. The non-seasonally adjusted measure now stands at 4.9 percent — an increase from the 4.7 percent rate recorded in March 2015. Note that an increase in the planning area labor force may help explain this rise in the regional unemployment rate.

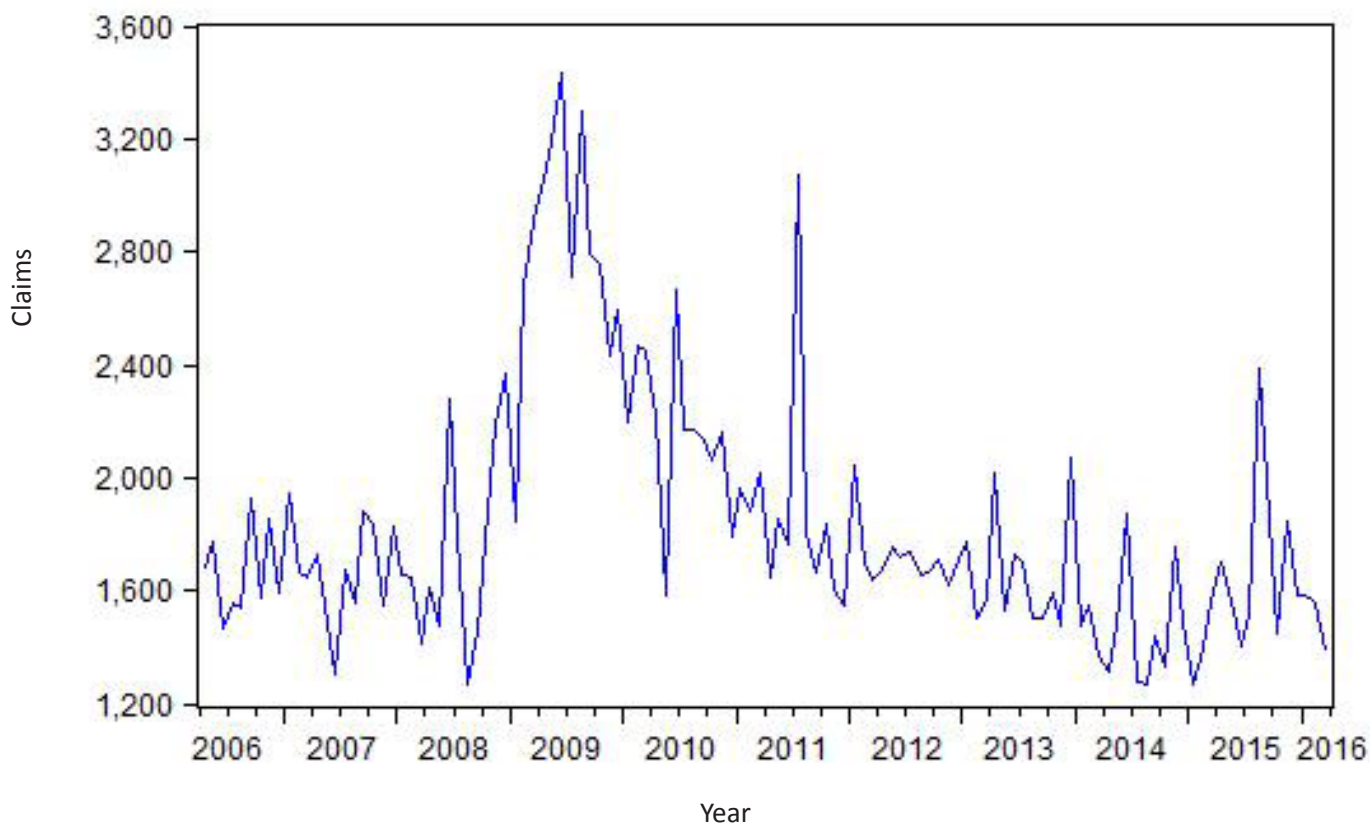
Unemployment Rate, seasonally adjusted—Southwest Minnesota Planning Area



Month	March 2015	October 2015	November 2015	December 2015	January 2016	February 2016	March 2016
Unemployment rate (not seasonally adjusted)	4.7%	2.9%	2.9%	3.9%	4.9%	4.8%	4.9%

New claims for unemployment insurance in March 2016 were 11.4 percent lower than one year earlier. The accompanying graph shows a seasonally adjusted series of initial unemployment claims. This series drifted upward in 2015 but has declined in recent months.

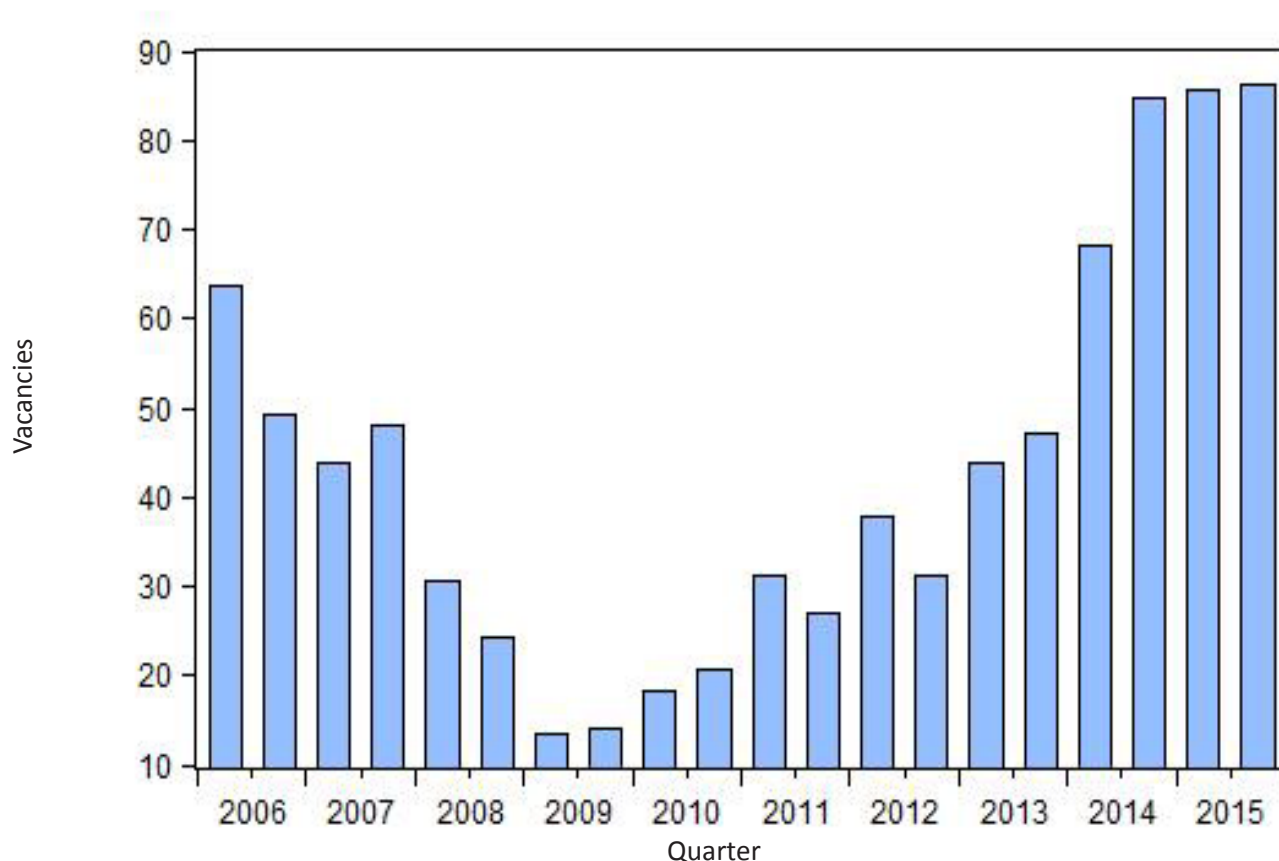
Total Initial Claims for Unemployment Insurance, seasonally adjusted—
Southwest Minnesota Planning Area



Month	March 2015	October 2015	November 2015	December 2015	January 2016	February 2016	March 2016
Initial claims (Not seasonally adjusted)	1,333	1,229	2,830	3,366	2,053	1,319	1,181

The number of job vacancies per 100 unemployed remained elevated in last year's fourth quarter (this is the most recently available data). The labor shortage in this region persists—there are nearly as many jobs available as there are unemployed people to fill these jobs. With a job vacancy rate approaching 100, the Southwest region has a job vacancy rate that is the third highest of any of Minnesota's six planning areas. Only the Twin Cities and Southeast planning areas have a higher rate of job vacancies. Seasonally adjusted unemployment data are used in constructing the chart below. None of the figures reported in the table are seasonally adjusted.

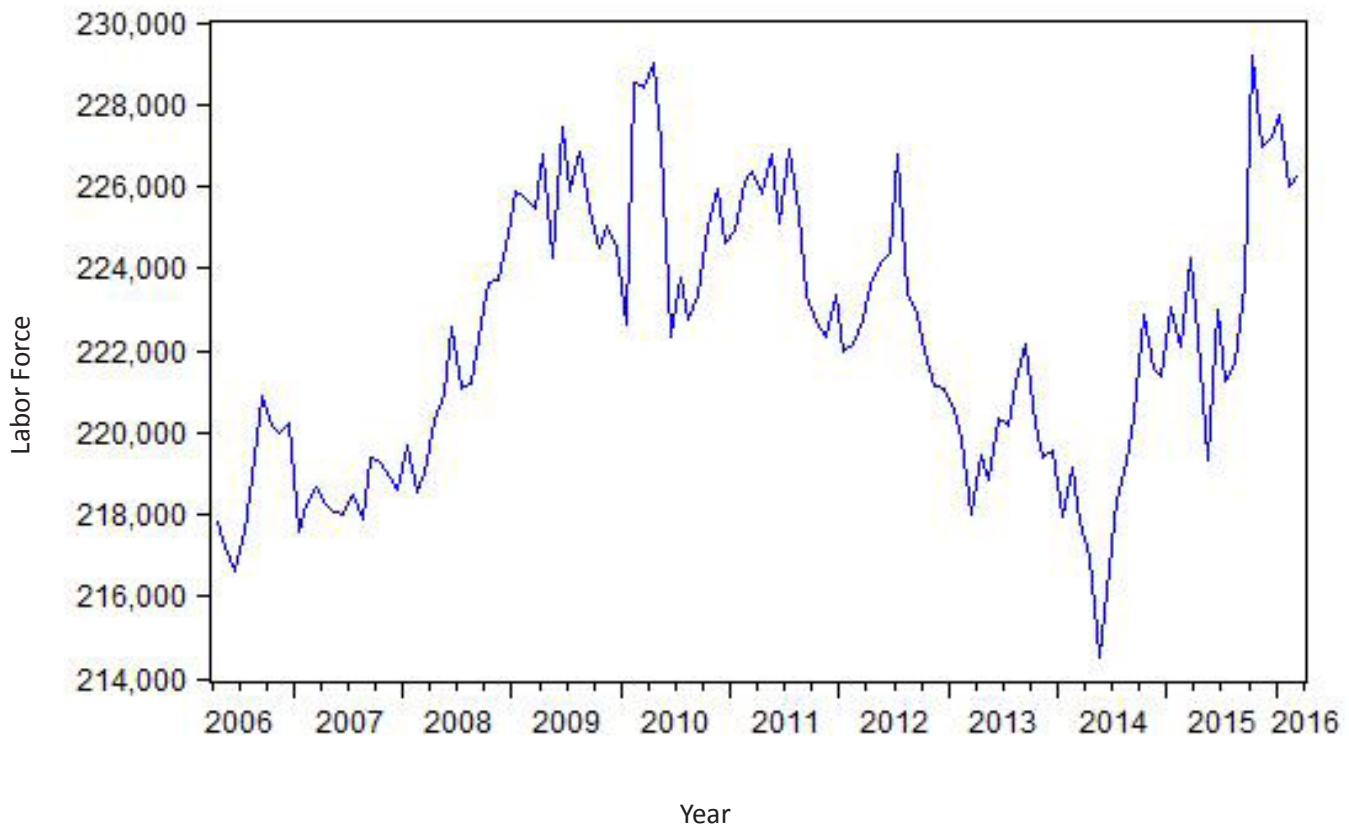
Job Vacancies per 100 Unemployed--Southwest Minnesota Planning Area



Quarter	2013:II	2013:IV	2014:II	2014:IV	2015:II	2015:IV
Job Vacancies per 100 Unemployed	45.32	55.49	73.58	97.46	89.44	96.43

The Southwest Minnesota labor force expanded by 2,075—a 0.9 percent annual increase—over the year ending March 2016. As can be seen in the accompanying figure, the planning area’s labor force has trended upward since the middle months of 2014.

Labor Force—Southwest Minnesota Planning Area (12-month moving average)

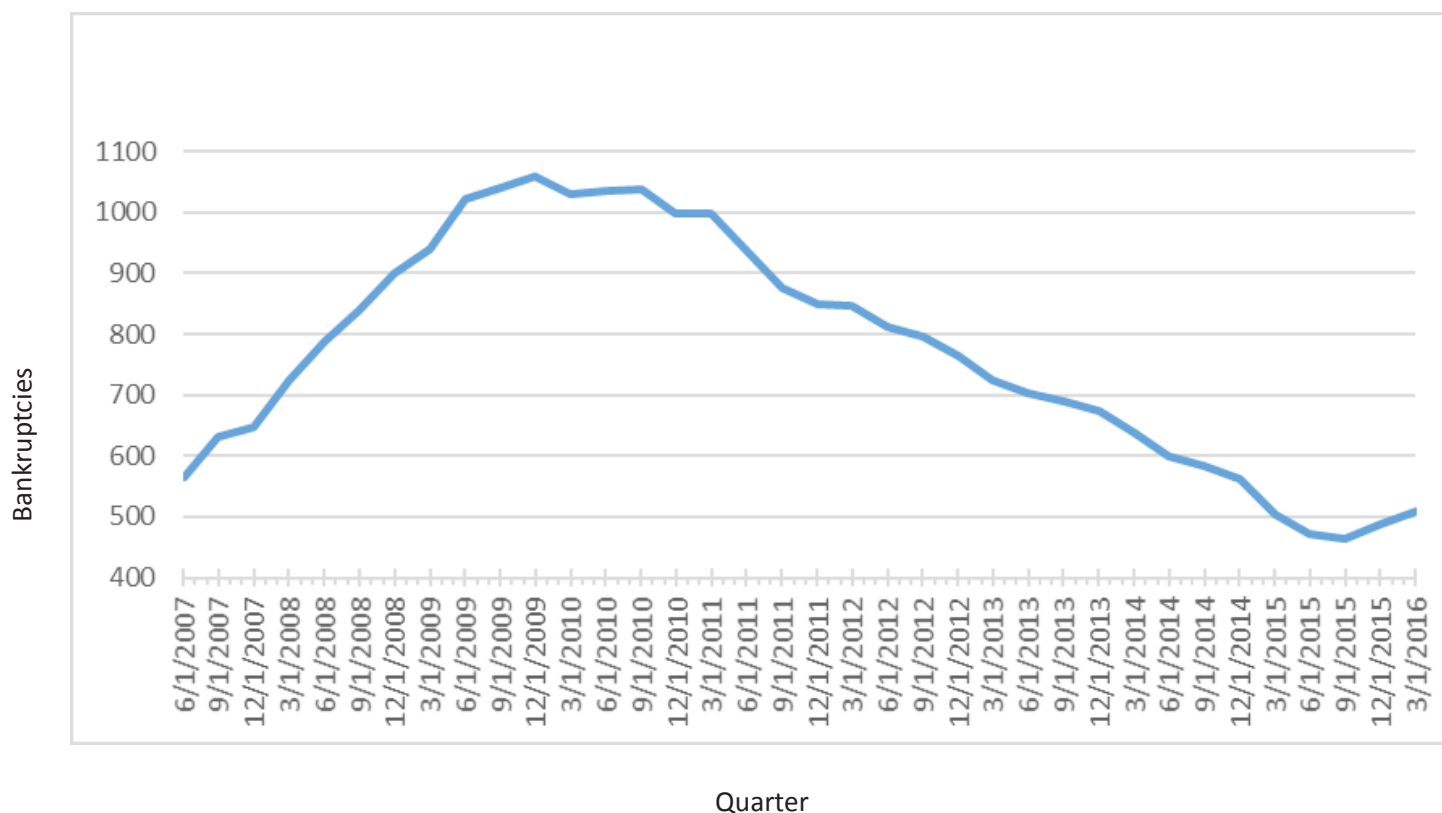


Year (March)	2011	2012	2013	2014	2015	2016
Labor Force (Not seasonally adjusted)	227,570	223,984	219,121	218,820	225,213	227,288

Southwest Minnesota Bankruptcies

The figure below shows the 12-month moving total for Southwest Minnesota bankruptcies since the second quarter of 2007 (shortly before the beginning of the Great Recession). As can be seen in the figure, this moving total increased until the end of 2009, and steadily declined until the fourth quarter of last year. With 510 bankruptcies over the past twelve months, the level of bankruptcies in Southwest Minnesota has started rising. The level of annual bankruptcies in the first quarter of 2016 is now higher than that which was observed the prior year. This is the only one of Minnesota's planning areas to begin experiencing rising bankruptcies.

Southwest Minnesota Bankruptcies (12-month moving total)



Year (First Quarter)	2011	2012	2013	2014	2015	2016
Annual Bankruptcies (Not seasonally adjusted)	997	847	725	639	504	510

Economic Indicators

Mankato-North Mankato MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Labor Market					
Employment	March 2016 (m)	56,132	55,372	1.4% ↑	0.9%
Goods-Producing Employment	March 2016 (m)	9,357	9,728	-3.8% ↓	-0.7%
Average Weekly Work Hours - Private Sector	March 2016 (m)	30.0	31	-3.2% ↓	32.4 (since 2008)
Average Earnings Per Hour - Private Sector	March 2016 (m)	\$22.86	\$22.04	3.7% ↑	-0.2% (since 2008)
Unemployment Rate	March 2016 (m)	3.5%	3.3%	NA ↑	4.4%
Labor Force	March 2016 (m)	60,808	59,501	2.2% ↑	0.8%
Initial Jobless Claims	March 2016 (m)	353	280	26.1% ↑	NA
Business Formation					
Total New Business Filings	First Quarter 2016 (q)	200	215	-7.0% ↓	163 (since 2000)
New Business Incorporations	First Quarter 2016 (q)	10	18	-44.4% ↓	27 (since 2000)
New Limited Liability Companies	First Quarter 2016 (q)	117	123	-4.9% ↓	74 (since 2000)
New Assumed Names	First Quarter 2016 (q)	62	65	-4.6% ↓	54 (since 2000)
New Non-profits	First Quarter 2016 (q)	11	9	22.2% ↑	7 (since 2000)
Mankato / North Mankato Residential Building Permit Valuation, in thousands	March 2016 (m)	2,642	3,569	-26.0% ↓	NA
Mankato / North Mankato Cost of Living Index	Annual Average 2015	94.5	95.1	-0.6% ↓	NA

(m) represents a monthly series

Southwest Minnesota contains the Mankato/North Mankato MSA, a region of diversified employment sectors with an economic foundation that is based on education, manufacturing, health services and agriculture. The Mankato area accounts for more than one-quarter of the planning area's employment, so performance in the entire region is greatly influenced by its largest city. As the accompanying table shows, Mankato employment increased over the year ending March 2016. Average hourly earnings rose and the labor force expanded. New business filings fell (with the exception of non-profits). Initial jobless claims jumped 26.1 percent from March 2015 and the length of the workweek fell. The value of residential building permits decreased by 26 percent compared to March 2015.

State and National Indicators

MINNESOTA Indicators	Mar 2016	Dec 2015	Mar 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,876,500	2,875,700	2,845,500	0.3%	1.1%
Average weekly hours worked, private sector	33.5	33.7	33.9	-0.6%	-1.2%
Unemployment rate, seasonally adjusted	3.7%	3.7%	3.6%	NA	NA
Earnings per hour, private sector	\$26.82	\$26.36	\$26.32	1.7%	1.9%
Philadelphia Fed Coincident Indicator, MN	177.73	176.69	173.74	0.6%	2.3%
Philadelphia Fed Leading Indicator, MN	1.42	1.06	1.89	33.4%	-24.9%
Minnesota Business Conditions Index	50.7	39.4	50.0	28.7%	1.4%
Price of milk received by farmers (cwt)	\$15.80	\$17.00	\$17.40	-7.1%	-9.2%
Enplanements, MSP airport, thousands	1,662.9	1,429.0	1,629.6	16.4%	2.0%
NATIONAL Indicators	Mar 2016	Dec 2015	Mar 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	143,774	143,146	140,972	0.4%	2.0%
Industrial production, index, SA	103.4	104.1	105.5	-0.7%	-2.0%
Real retail sales, SA (\$)	187,831	188,936	186,219	-0.6%	0.9%
Real personal income less transfers (\$, bill.)	11,821.5	11,737.8	11,422.4	0.7%	3.5%
Real personal consumption expenditures (\$, bill.)	11,397.1	11,358.5	11,104.4	0.3%	2.6%
Unemployment rate, SA	5.0%	5.0%	5.5%	NA	NA
New building permits, SA, thousands	19,300	17,620	17,477	9.5%	10.4%
Standard & Poor's 500 stock price index	2,022	2,054.1	2,080	-1.6%	-2.8%
Oil, price per barrel in Cushing, OK	\$37.55	\$37.19	\$47.82	1.0%	-21.5%

Across the state there was growth in payrolls and higher earnings per hour in the private sector over the past twelve months. The seasonally adjusted unemployment rate inched up over the past twelve months and average weekly hours worked in the private sector declined. Indicators from the Federal Reserve Bank of Philadelphia suggest improved current and future conditions in the state economy (although the leading indicators index was lower than last year). The Minnesota Business Conditions index surged in recent months. Milk prices were 9.2 percent lower than one year ago in March. This has been a particularly difficult period for those who make a living in milk production. Enplanements at the Minneapolis-St. Paul airport increased by 2 percent over the last twelve months.

On balance, the national economic indicators reported in the table suggest improved economic activity in recent months. While industrial production was lower and stock prices fell, most of the indicators showed strength. Employment, consumer expenditures, and income all experienced growth over the recent quarter and the national unemployment rate stabilized. Retail sales have shown some recent weakness and oil prices have stabilized in recent months (which is a welcome sign in the domestic energy sector). New building permits were much stronger than one year ago as residential construction continues to recover from historically low levels during the Great Recession.

The Southwest Minnesota Quarterly Economic and Business Conditions Report is a collaboration between the Office of the Minnesota Secretary of State and the School of Public Affairs Research Institute (SOPARI) of St. Cloud State University. All calculations and text are the result of work by SOPARI, which is solely responsible for errors and omissions herein.

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